

**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 05/09/06  
AGENDA ITEM 7  
WORK SESSION ITEM \_\_\_\_\_

**TO:** Mayor and City Council  
**FROM:** City Manager  
**SUBJECT:** Disposition of City Center Garage

**RECOMMENDATION:**

It is recommended that the City Council adopt the attached resolution directing staff to prepare a purchase and sales agreement and any other documentation necessary to convey the former city center garage to InterCoastal Properties based on the terms described in this report.

**DISCUSSION:**

The city center garage, with about 700 parking stalls, was constructed approximately 25 years ago to address the parking needs of the adjoining 11-story office building and nearby Centennial Hall. The garage is not heavily used and has been largely vacant since the City moved out of the 11-story building in 1991. Today, some of the nearby tenants and businesses use the lower parking stalls, while some of the remaining stalls are used by patrons or visitors to Centennial Hall, as necessary.

When the City sold the 11-story building in 1998, the sales agreement included a provision reserving 500 spaces for exclusive use of office tenants during normal business hours, Monday through Friday, with the remaining 200 parking spaces available on a non-exclusive basis. All 700 spaces were available on a non-exclusive basis during after hours and on weekends. Due to this provision in the agreement, there is an encumbrance on the property, albeit for a particular use.

In 2004, the City Council approved an application filed by the previous owner of the 11-story building to convert it into 150 condominiums. Although land use approvals were granted, building permits to construct the conversion were never obtained. The property was later sold to InterCoastal Properties, a Southern California company. After conducting more detailed analysis, InterCoastal concluded that it is not cost-effective to convert the office building into residences. Instead, InterCoastal is interested in acquiring the garage and constructing up to 200 condominiums, within four stories, on top of the garage.

An appraisal of the garage site was obtained, which noted a market value of \$3.5 million. It should be noted that the appraisal did not take into account or adjust this value to reflect the cost

of the improvements which would need to be undertaken to sustain the long-term use of the garage. Since its completion, limited maintenance has been performed on the garage. While the garage complied with the codes in effect at the time it was constructed, substantial improvements would be necessary to meet current code requirements. To ascertain potential costs for such improvements, InterCoastal obtained estimates from a construction company knowledgeable in the field. As a result, InterCoastal estimates it will cost between two and four million dollars to upgrade the garage. While it would not be necessary to incur costs at the upper end of this range to have the garage continue to function solely as a parking structure, we do believe the lower amount is a good indicator of expenses likely to be incurred to assure its long term viability. As the owner of the garage, this represents a potential expense to the City.

In light of the cost of the improvements to be incurred to enable the garage to be reused, InterCoastal proposes that the value be adjusted. We concur. Accordingly, staff and InterCoastal agree that a value of \$1.5 million is appropriate and InterCoastal is prepared to purchase the garage for this amount. Should the Council agree to sell the site for this price, InterCoastal will commence architectural and other related work in order to submit a land use application for up to 200 condominiums.

Although reuse of an idle asset is a positive step, of equal concern is the future of the 11-story building. With the City's move to a temporary City Hall in 1991, the building has been largely vacant for over a decade. Because there is a substantial surplus of modern office space in the Bay Area, reuse in an office capacity is unlikely for the foreseeable future. Moreover, its conversion to a residential use has proven to be problematic. Yet, having it remain in its current state is unacceptable. Staff is pleased to report it has been successful in securing a commitment from InterCoastal to deconstruct the building.

Had the inclusionary housing ordinance been in effect when the application to convert the 11-story building to condominiums was approved, the applicant would have had to earmark 23 units for sale to moderate income households. Because the application was deemed to be complete prior to the effective date of the ordinance, the project was exempt from the requirements of the ordinance. Should InterCoastal construct 200 condominiums on top of the garage as contemplated, however, 30 inclusionary units would be required. As part of this transaction, InterCoastal is seeking the ability to adjust this obligation downward by 23, which equals the number of "exempt" units associated with the residential conversion approvals granted in 2004.

Staff recommends approval of such an adjustment. In making this recommendation, staff is mindful of the importance of maintaining the viability of the inclusionary ordinance, and that its intended purpose not be undermined. In this case, because there is no other project in a similar situation—meaning, approved prior to the effective date of the ordinance but not yet constructed—this is a unique case and will not be replicated. Moreover, should a residential application involving what will be a vacant parcel after the building is razed be approved, the provisions of the ordinance will apply.

The sale of the garage site will entail preparation of a sales agreement. Although the basic parameters of a sales transaction have been developed, a formal agreement has not yet been

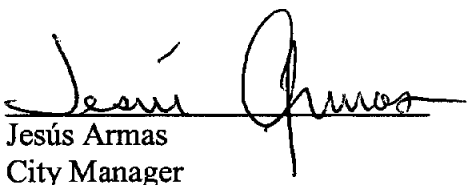
prepared. Before preparing such an agreement, Council is asked to approve the basic business terms of the transaction, as follows:

1. The garage site will be sold to InterCoastal for \$1.5 million, payable in five years. In the interim, annual interest payments will be made to the City. Interest rate will be the rate of return realized by the City's portfolio, capped at 5%.
2. The 11-story building is to be deconstructed within 90 days following close of escrow, no later than January 1, 2007.
3. InterCostal's obligation to produce inclusionary units will be adjusted downward to reflect the 23 units theoretically associated with the 11-story building.

Once the 11-story building is removed, there will be a vacant one-acre parcel. The City has long expressed interest in developing a modern conference facility. Indeed, for a number of years, the Council has reserved funds in the budget to be used to attract a quality hotel and conference facility to Hayward. While Centennial Hall has served a useful purpose, due to its age and other limitations, its ability to attract business is constrained. As such, it would seem appropriate to leverage the current Centennial Hall site to generate funds to develop a new, state-of-the art replacement. Combining the Hall site with that of the 11-story site yields about 3.75 acres, which could be attractive to a number of users and developers. To assess the extent of interest from the private sector and to maximize economic returns to all property owners, it would be advisable to solicit proposals from prospective developers. In discussing this matter with InterCoastal representatives, they have agreed to work with the City to explore the feasibility of and mutual desirability including their property in any Request for Proposals that may be issued by the City.

It is important to note that no one is proposing that Centennial Hall cease operation. It serves a useful and valuable purpose in this community. Even if a decision were made to reuse that parcel in a different capacity, it should occur only after a replacement facility is constructed.

The potential to create new and exciting uses, in place of under utilized properties or vacant buildings, in what was once the seat of government, is a promising one. For this reason, staff recommends that the Council approve the business terms described above regarding the disposition of the former city center garage, and direct staff to prepare a formal agreement for your consideration at a later date.

  
Jesús Armas  
City Manager

**DUE TO THE COLOR OF THE  
REFERENCED ATTACHMENT, IT  
HAS BEEN ATTACHED AS A  
SEPARATE LINK**

# DRAFT

## HAYWARD CITY COUNCIL

RESOLUTION NO. \_\_\_\_\_

Introduced by Council Member \_\_\_\_\_

*man*  
*5/5/04*

**RESOLUTION AUTHORIZING STAFF TO PREPARE A PURCHASE AND SALES AGREEMENT TO CONVEY THE FORMER CITY CENTER GARAGE TO INTERCOASTAL PROPERTIES AND TAKE ANY AND ALL PREREQUISITE STEPS NECESSARY FOR DISPOSITION OF PUBLIC PROPERTY**

WHEREAS, the former City Center garage (the "City Center Garage") was constructed approximately 25 years ago to address the parking needs of Centennial Hall and the adjoining 11-story building; and

WHEREAS, the City Center Garage has been underutilized since the City moved out of the 11-story building in 1991; and

WHEREAS, the City sold the 11-story building in 1998 and InterCoastal Properties, the current owner of the 11-story building, has expressed an interest in the City Center Garage for the purpose of constructing a condominium complex in the airspace above the City Center Garage.

NOW THEREFORE BE IT RESOLVED that the City Council of the City of Hayward authorizes staff to prepare a purchase and sales agreement, for City Council review, conveying the City Center Garage to InterCoastal Properties, in accordance with the business terms outlined in the agenda report and in a form to be approved by the City Attorney, and directs staff to take all prerequisite steps necessary for the disposition of said public property.

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_, 2006

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

**ATTEST:** \_\_\_\_\_  
City Clerk of the City of Hayward

**APPROVED AS TO FORM:**

\_\_\_\_\_  
City Attorney of the City of Hayward